FDIC State Profile

Spring 2004

Kentucky

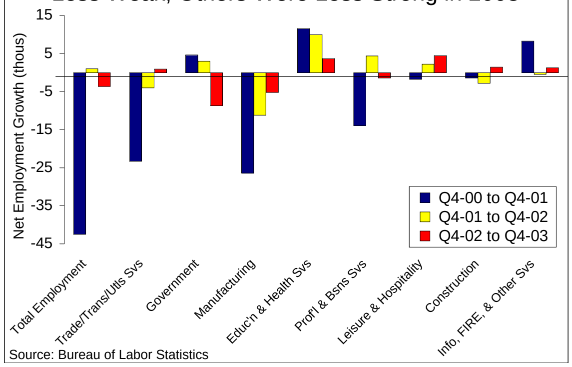
The Kentucky economy shows signs of economic recovery.

- Although year-to-year payroll employment continued a three-year negative trend, the fourth-quarter 2003 payroll gain of 6,600 jobs may hint of a turnaround.
- Performance in Kentucky's main industrial sectors has been mixed over the past three years. As job losses in the manufacturing and trade, transportation and utilities sectors eased significantly, employment growth in other key sectors, such as government and education and health services, lessened or even turned negative (See Chart 1).
- Government employment faces an uneven year. At the federal level, $200 million from the 2004 appropriation bills was allocated to defense contracts in Kentucky.[1] However, some offset will come from a $70 million reduction in budgets to state universities.[2]
- Auto sector growth continues. Kentucky's Ford and Toyota plants are important customers for manufacturers of vehicle parts and supplies. Auto-parts maker Dana Corp added almost 300 jobs in Kentucky in the past year to meet demand for Ford F-150 pickup frames.[3]

Construction affected by disparate factors.

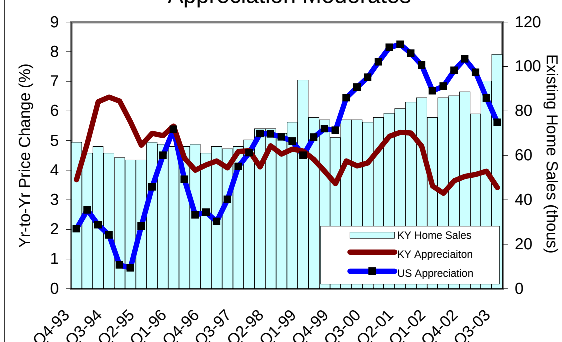
- Some $135 million in military construction spending included in 2004 Federal appropriation bills will likely boost construction employment and contractor activity in Kentucky.
- Kentucky's housing activity in 2003 remained active as home sales and permits rose compared with 2002. However, home price appreciation slowed modestly (See Chart 2).
- In Louisville's central business district (CBD), office properties had positive net absorption in Class A space in fourth quarter 2003. Yet, overall office vacancy rates for the ***Louisville MSA*** rose due to negative absorption

Chart 1: Employment Fell as Some Sectors Were Less Weak, Others Were Less Strong in 2003



Source: Bureau of Labor Statistics

Chart 2: Home Sales Remain Strong and Home Price Appreciation Moderates



Source: National Association of Realtors, Office of Federal Housing Enterprise Oversight

Table 1: Earning Components Losses Contribute to Decline in Profitability

Income statement contribution (as percent of average assets)

	3 months ended Dec 31		Basis Point Change
	2002	2003	
Net Interest Income	3.73	3.65	-0.08
Total NonInterest Income	0.91	0.85	-0.06
NonInterest Expense	-2.93	-2.97	-0.04
Provision Expense	-0.40	-0.42	-0.02
Security Gains & Losses	0.04	0.03	-0.01
Income Taxes	-0.34	-0.23	0.11
Net Income (ROA)	1.01	0.90	-0.11

Source: Aggregate Data from Bank and Thrift Call Reports of Community Institutions

[1] Economy.com, Inc. Kentucky Precis, November 2003.
[2] Blackford, Linda. "Universities to Lose Additional $45 Million." Lexington Herald-Leader, 1/9/04.
[3] Robert Schoenberge. "Dana Adds Nearly 300 Workers in E'town." The Courier-Journal. 1/22/04

in Class B CBD space and suburban markets.[4] Although demand remains sluggish, falling vacancy rates among industrial properties hint at improving economic trends.

Declining net interest margins are still the main reason for profitability erosion among Kentucky community institutions.

- Return on assets (ROA) declined in fourth-quarter 2003, compared to a year earlier, for community institutions headquartered in Kentucky.[5] The declining profitability is primarily attributed to a drop in net interest income, as yields on earning assets declined at a faster pace than cost of funds (See Table 1). Total noninterest income declined modestly for community institutions in Kentucky, though the level of service charges on deposit accounts remained stable. Roughly half of these institutions' noninterest income comes from service charges on deposits.Security gains have contributed less to earnings in recent quarters, compared with the past two years. Without the sharp declines in interest rates experienced in past years, securities appreciation has slowed.

- Kentucky's community institutions have a high exposure to mortgage loans: one-to-four family mortgages account for forty percent of loan portfolios.

- Compared to fourth quarter 2002, community institutions saw an improvement in past-due and nonaccrual (PDNA) rates to 3.1 percent for one-to-four family real estate backed loans. However, this remains above the 2.6 percent level seen in community banks across the Chicago Region.

- Conventional mortgage foreclosure rates increased by ten-basis points during third quarter 2003, a situation that demonstrates Kentucky households continue to experience financial stress (See Chart 3).

The Kentucky consumer waits for stronger job and income growth.

- Consumer loans experienced one of the highest increases in PDNA levels, compared with other loan types, raising concerns over increasing household debt (See Chart 4).

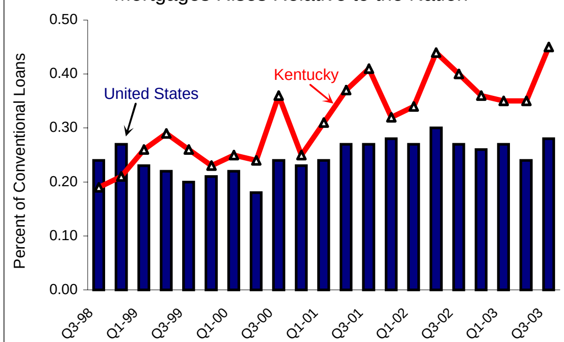
- Nonbusiness bankruptcy filing rate in Kentucky continued to rise in 2003. While tax cuts and refinancing activity may provide households with funds, the weak job market continues to restrict income growth.

Overall delinquency loan rates fell despite poor household conditions.

- Aggregate delinquency rates fell by 15-basis points during fourth quarter 2003, primarily in the 30-89 days past-due category. These falling short-term delinquency levels may provide a leading indicator for improvement in overall PDNA levels.

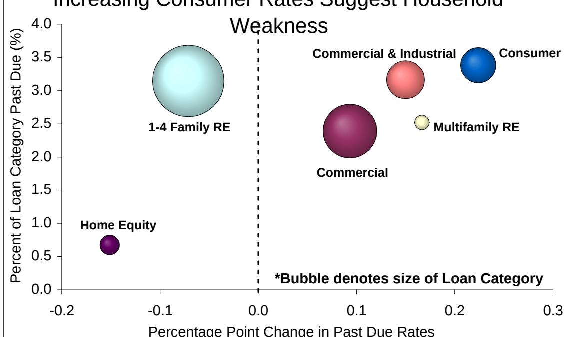
- The allowance for loan and lease losses (ALLL) relative to total loans and nonperforming loans compares favorably with levels seen across the Chicago Region (See Chart 5).

Chart 3: Kentucky's Foreclosure Rate on Conventional Mortgages Rises Relative to the Nation



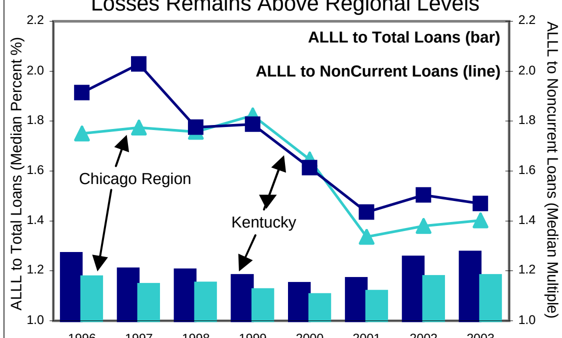
Source: Mortgage Bankers Association

Chart 4: Mortgage Loan Delinquency Declines, but Increasing Consumer Rates Suggest Household Weakness



Source: Aggregate Data from Bank and Thrift Call Reports; three months ended

Chart 5: Kentucky's Allowance for Loan and Lease Losses Remains Above Regional Levels



Source: Bank and Thrift Call Reports of Community Institutions

[4]Grubb & Ellis Company, 2003.
[5]Community institutions are insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks.

Kentucky at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	243	249	258	267	286
Total Assets (in thousands)	47,468,630	55,447,216	58,654,987	55,652,165	54,756,788
New Institutions (# < 3 years)	7	13	16	16	18
New Institutions (# < 9 years)	41	41	41	41	38

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.17	9.14	9.32	9.47	9.45

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.41%	2.44%	2.45%	2.22%	1.84%
Past-Due and Nonaccrual >= 5%	33	39	38	27	20
ALLL/Total Loans (median %)	1.29%	1.27%	1.20%	1.16%	1.17%
ALLL/Noncurrent Loans (median multiple)	1.49	1.54	1.52	1.63	1.83
Net Loan Losses/Loans (aggregate)	0.54%	0.56%	0.52%	0.36%	0.38%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	16	21	27	23	15
Percent Unprofitable	6.58%	8.43%	10.47%	8.61%	5.24%
Return on Assets (median %)	1.05	1.06	1.02	1.12	1.19
25th Percentile	0.70	0.70	0.56	0.72	0.80
Net Interest Margin (median %)	3.96%	4.04%	3.97%	4.21%	4.19%
Yield on Earning Assets (median)	6.02%	6.79%	7.98%	8.44%	8.01%
Cost of Funding Earning Assets (median)	2.06%	2.75%	3.98%	4.22%	3.81%
Provisions to Avg. Assets (median)	0.20%	0.23%	0.22%	0.19%	0.18%
Noninterest Income to Avg. Assets (median)	0.72%	0.68%	0.65%	0.60%	0.60%
Overhead to Avg. Assets (median)	2.87%	2.86%	2.86%	2.86%	2.76%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	80.47%	79.97%	82.22%	83.79%	84.27%
Loans to Assets (median %)	65.73%	65.94%	66.08%	68.10%	67.71%
Brokered Deposits (# of Institutions)	36	36	39	41	43
Bro. Deps./Assets (median for above inst.)	2.97%	1.21%	1.06%	1.02%	1.17%
Noncore Funding to Assets (median)	20.29%	19.64%	20.24%	19.82%	19.13%
Core Funding to Assets (median)	68.51%	68.30%	68.40%	67.96%	70.00%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	162	161	167	170	182
National	48	52	52	52	57
State Member	7	8	11	11	9
S&L	9	10	10	11	11
Savings Bank	17	18	18	23	27
Stock and Mutual SB	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	173	23,398,479	71.19%	49.29%
Lexington KY	24	4,786,342	9.88%	10.08%
Louisville KY-IN	16	14,322,246	6.58%	30.17%
Cincinnati OH-KY-IN PMSA	14	1,858,046	5.76%	3.91%
Huntington-Ashland WV-KY-OH	8	1,373,488	3.29%	2.89%
Owensboro KY	3	670,500	1.23%	1.41%
Clarksville-Hopkinsville TN-KY	3	848,341	1.23%	1.79%
Evansville-Henderson IN-KY	2	211,188	0.82%	0.44%